

MALAYSIA

- Assets - Weaknesses

- Country rating

- Major macro economic indicators

- Market size

- Payment incidents index

- Risk Assessment

- Back

ASSETS - WEAKNESSES

MALAYSIA

ASSETS

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- The country exports both manufactured products and raw materials such as oil and palm oil.
- The services sector keeps growing and now generates two-thirds of GDP growth.
- Malaysia boasts an effective education system and the infrastructure to support long-term growth.
- Efforts made to promote training and technological development have fostered a more competitive economy.
- Recent reforms have spurred development of the financial market and facilitated foreign direct investment.
- Tax reforms have introduced investment incentives like income tax exemptions for dividends or income tax breaks for companies and home purchase.

WEAKNESSES

- Since the economy is very open, it is vulnerable to world economic downturns.
- With fiscal revenues heavily dependent on the gas and oil sector — 35 per cent of public sector revenues — a decline in prices or production would put public finances at risk.
- Despite positive discrimination policy regional disparities persist to the detriment of the Malaysian majority.
- Although in gradual decline the stock of bank credit granted to the private sector is still among the largest in Asia.
- With labour costs twice those in China the Malaysian economy's price competitiveness has been being eroded.

[- Back -](#)

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COUNTRY RATING

MALAYSIA

Rating : A2

The political and economic situation is good. A basically stable and efficient business environment nonetheless leaves room for improvement. Corporate default probability is low on average.

« Coface launches a new « business climate » rating » : [Click here](#)

[- Back -](#)

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MAJOR MACRO ECONOMIC INDICATORS

MALAYSIA

(USD billions)	2003	2004	2005	2006	2007(f)	2008(f)
Economic growth (%)	5.8	6.8	5.0	5.9	6.0	5.8
Inflation (%)	1.0	1.5	3.0	3.6	2.1	2.6
Public sector balance (%GDP)	-5.0	-4.1	-3.6	-3.3	-3.2	-3.1
Exports	105.0	126.6	141.8	160.8	169.9	187.6
Imports	79.3	99.1	108.7	124.0	132.7	150.5
Trade balance	25.7	27.5	33.2	36.8	37.2	37.1
Current account balance	13.3	14.8	20.0	25.5	25.9	26.1
Current account balance (%GDP)	12.1	11.9	14.6	16.3	13.8	12.5
Foreign debt (%GDP)	44.6	42.3	37.8	33.8	28.5	26.3
Debt service (%Exports)	6.3	4.6	5.2	4.5	4.1	2.3
Foreign exchange reserves (in months of imports).	4.9	6.0	5.7	6.0	6.8	7.3

(f) forecast

[- Back -](#)

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MARKET SIZE

MALAYSIA

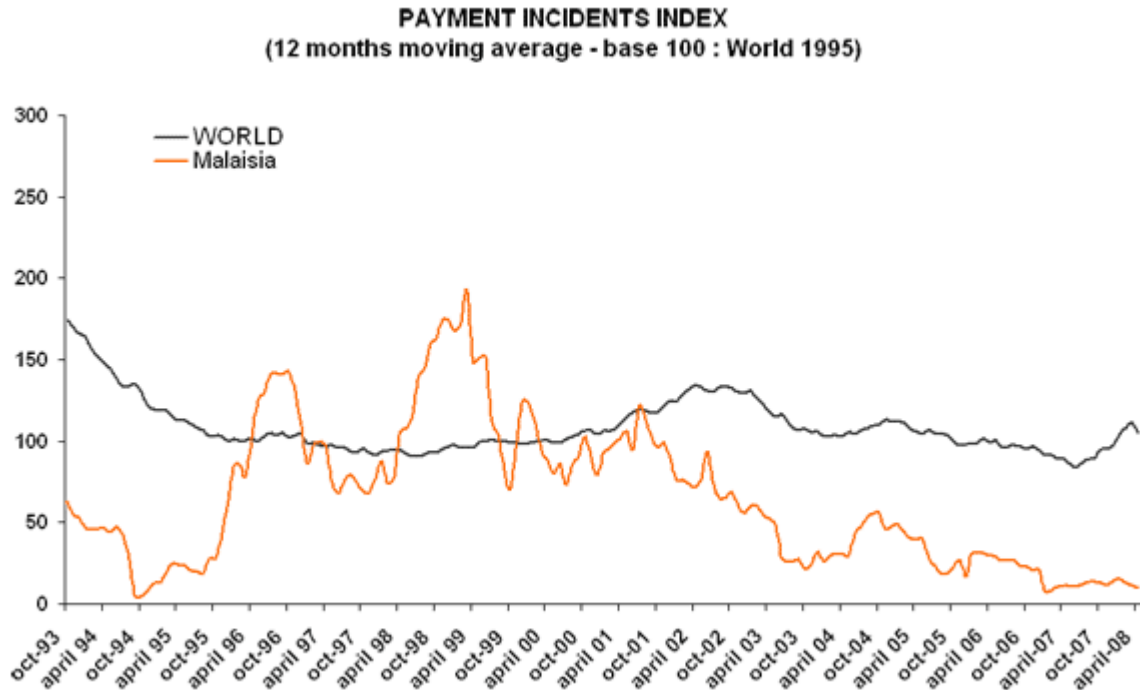
Main Economic Indicators	MALAYSIA	Regional average	DC average
GNP per capita (PPP dollars)	11 300	5 929	5 983
GNP per capita (USD)	5 490	1 814	2 313
Human development index	0,805	0,683	0,672
Wealthiest 10% share of national income (%)	38	32	31
Urban population percentage	67	37	44
Percentage under 15 years old	32	28	30
Number of computers per 1,000 inhabitants	197	42	50

[- Back -](#)

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PAYMENT INCIDENTS INDEX

MALAYSIA



[- Back -](#)

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RISK ASSESSMENT

MALAYSIA

RISK ASSESSMENT

Economic growth should remain very strong in 2007, driven by dynamic private investment and especially by the strong growth of private consumption. In view of the slowdown expected in the United States, which provides a market for 20 per cent of Malaysian exports, growth could slow slightly in 2008. The upward trend will nonetheless continue thanks to the diversification of the economy. Besides the electronics sector, which represents 53 per cent of exports, the retail trade, financial services, construction, tourism, and a farm sector buoyed by high raw material prices have supported the growth. As a result the Coface payment experience has remained good and claim collection is effective. Unlisted companies, however, only rarely publish financial statements.

Malaysia's enjoys a healthy financial situation underpinned by an ample current account surplus and high foreign exchange reserves. The banking sector continues moreover to grow stronger as evidenced by the decline of the proportion of non-performing loans. Public spending is still high, however, which has resulted in an appreciable fiscal deficit and public sector debt representing over 50 per cent of GDP. Sovereign risk has nonetheless been limited due to the abundance of domestic savings.

With Prime Minister Abdullah Badawi's UMNO party (the *United Malays National Organisation*) having won by a large majority in two by-elections, in January and April last year, he may decide to hold legislative elections before the initially scheduled date of April 2009 to take advantage of the opposition's weakness and lack of cohesiveness. Despite the emergence of a coalition of 26 opposition groups and parties under the name *Bersih*, Malay for "clean", the ability of opposition parties to compete with UMNO is still limited due to the heterogeneity of their programmes. Only issues linked to governance unite them. To foster improvements in that area, they organise demonstrations, like the one in November and December 2007 in Kuala Lumpur, to protest against corruption and the lack of independent judicial authority and to demand electoral reform before the general elections take place.

[- Back -](#)

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